GRAY DRUG STORES, INC.

ANNUAL REPORT TO SHAREHOLDERS. . . .

FOR THE YEAR ENDED JUNE 30, 1950

MRS
Corp. File

In Memoriam

With great regret we record the passing of a member of Gray's Board of Directors.

EDWARD E. BARKER

Member of the board from September 23, 1947
to
November 10, 1949

GRAY DRUG STORES, INC.

MAIN OFFICE AND WAREHOUSE—2400 SUPERIOR AVENUE
CLEVELAND, OHIO

LABORATORY—1707 CRAWFORD ROAD
CLEVELAND, OHIO

BOARD OF DIRECTORS

CARLYLE W. EVANS.....Executive Vice-President, Gray Drug Stores, Inc.
HENRY H. GRAY.....Vice-President, Gray Drug Stores, Inc.
FRANK E. JOSEPH.....Partner, Jones, Day, Cockley and Reavis
CHARLES B. MERRILL.....President, Merrill, Turben & Co.
GEORGE F. PRYOR.....Vice-President, The Cleveland Trust Company
ADOLPH WEINBERGER.....President and Treasurer, Gray Drug Stores, Inc.

OFFICERS

ADOLPH WEINBERGER.....President and Treasurer
CARLYLE W. EVANS.....Executive Vice-President
HENRY H. GRAY.....Vice-President
MILTON M. NEUBAUER.....Vice-President
LLOYD C. DOUGLASS.....Secretary and Assistant Treasurer
JOSEPH VALINS.....Assistant Secretary

TRANSFER AGENT AND REGISTRAR

THE CLEVELAND TRUST COMPANY.....Cleveland, Ohio

AUDITORS

ERNST & ERNST.....Cleveland, Ohio

COUNSEL

JONES, DAY, COCKLEY and REAVIS.....Cleveland, Ohio

REPORT TO SHAREHOLDERS

Cleveland, Ohio
September 12, 1950

To our Shareholders:

The results of your Company's operations for the fiscal year ended June 30, 1950 are presented in this report.

EARNINGS

Net income for the year, after deducting all charges including taxes, was $281,995, or $2.03 a share of Common Stock, as compared with $1.73 a share for the preceding year, an increase of approximately 17%. Net operating profit before taxes (which excludes profit on the sale of stores and all other non-operating income) was $406,420, or 2.66% of net sales, as compared with $399,645, or 2.56% of net sales, for the preceding year.

SALES

Net sales for the past year were $15,283,817 as compared with $15,643,806 for the preceding year. However, notwithstanding this decline in sales volume the Company experienced a slight improvement in its ratio of operating profit to net sales, as shown above.

MODERNIZATION PROGRAM

Under the Company's program of replacing smaller stores with larger units, one store was closed, two stores sold, five stores remodeled and one new unit opened. In connection with this program $268,587 was expended for fixed assets whereas depreciation charged to operations amounted to $283,008. The net carrying amount of the fixed assets which were sold amounted to $91,023. The gross amounts stated for assets and corresponding allowances for depreciation and amortization were reduced by $526,648 to eliminate fully depreciated assets which are believed to be no longer in use or have been abandoned in the remodeling program of the past few years.

On the pages of this report next following this letter are printed some views of the store in Sandusky, Ohio, as enlarged, and of new stores opened in Youngstown, Ohio, and Mansfield, Ohio. The latter store was not opened until July 26, 1950. We believe that with these stores in full operation the sales volume lost in recent years due to closing of smaller volume stores will be recovered.

MANAGEMENT

The manager of a business today must consider not only the many problems which normally face his industry and his company, but also the more imponderable, but perhaps more basic, questions which are raised by the times in which we live. The foreign situation, the inflationary trend, future tax rates and other similar factors may well have a greater impact on corporate earnings than advertising programs and sales policies. In order to meet these future uncertainties it is essential to have an organization that is able and willing to cope with these constantly changing conditions. I believe that we have such an organization—an organization that is relatively young in years but old in experience. The average age of the eight officers and key employees who comprise our executive group is only 45 years, yet they have an average of more than 16 years of service with this Company. They have given evidence of their ability and loyalty during many trying periods. With the various departments of the Company in their hands, I think we can look forward with confidence to continued profitable operations.

INCENTIVES

The Board of Directors has been aware of the principle that the success of a company is in large measure dependent upon the incentive of those who are in a position to contribute most directly to that success. In recognition of this principle, the Board of Directors in 1944 established a pension plan for employees with at least five years of continuous service. In 1948 the Board of Directors authorized the creation of an incentive bonus fund plan for certain officers and key employees other than the President, but no distribution has been made pursuant to this plan inasmuch as the required rate of net profits has not been attained. In 1950 the Board of Directors approved bonus plans for both managers and district managers. Sales personnel are generally on a part commission basis. These incentives and other forward-looking policies have, we believe, enabled us to secure and retain highly qualified personnel, not only among our executives but throughout our organization.

The organization during the past year has been encouraged and inspired by the confidence and interest of our shareholders, our Directors, our customers and our suppliers, and to each of these groups I wish to express our sincere thanks.

Respectfully submitted,

Adolph Weinberger

President

Gray's New and Enlarged Stores

GRAY DRUG
90 North Main St.
Mansfield, Ohio

Gray's continue to keep pace with the constantly changing needs of modern drug store merchandising by opening new units . . . enlarging and improving stores at established locations. We present on these pages several visual proofs of Gray's progress in "making new friends and keeping the old."

Interior View of
GRAY DRUG
1807 Belmont Ave.
Youngstown, Ohio

Enlarged and Remodeled
GRAY DRUG
Corner Columbus and
Market Sts.
Sandusky, Ohio

BETTER STORES FOR BIGGER SALES

Strong exterior identification . . . traffic-wise interior layouts . . . simplified departmentalization . . . and fixtures designed to sell merchandise; these are the features which keynote any new Gray store. Gray's are constantly "on the alert" for new innovations which keep the registers ringing.

GRAY DRUG
1807 Belmont Ave.
Youngstown, Ohio

PRESCRIPTION SERVICE

is emphasized more than ever at Gray's today. Competent pharmacists—spotlessly clean, glass-fronted departments—and complete stocks of fresh, pure drugs combine to gain the confidence of the medical profession and the public.

FOUNTAIN and RESTAURANT

Several Gray's "super-stores" now feature complete restaurants in addition to the familiar soda fountain operation. Good food, economical prices and courteous service are boosting sales in these new departments.

CIGAR DEPARTMENTS

continue to offer a wide variety of smokers sundries and related men's items as well as Gray's complete line of "humidor-fresh" cigars, cigarettes and tobaccos.

COSMETIC DEPARTMENTS

maintain complete stocks of nationally-known toiletries. Famous brands are displayed to best advantage in brightly-lit cases—suggested and sold by girls trained in beauty-lore.

ACCOUNTANTS' REPORT

Board of Directors,
Gray Drug Stores, Inc.,
Cleveland, Ohio.

We have examined the consolidated balance sheet of Gray Drug Stores, Inc., and subsidiaries as of June 30, 1950, and the related statements of consolidated profit and loss and surplus for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying balance sheet and statements of profit and loss and surplus present fairly the consolidated financial position of Gray Drug Stores, Inc., and subsidiaries at June 30, 1950, and the consolidated results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

ERNST & ERNST
Certified Public Accountants

Cleveland, Ohio
August 18, 1950

CONSOLIDATED BALANCE SHEET

GRAY DRUG

ASSETS

CURRENT ASSETS			
Cash			$1,172,678
Trade accounts receivable, less allowance of $10,000			75,821
Tax stamps—state			58,361
Inventories—priced generally on the basis of the lower of cost (latest) or replacement market:			
At stores		$1,848,027	
At warehouse		795,696	
At laboratory		7,292	
		$2,651,015	
In transit		107,009	2,758,024
TOTAL CURRENT ASSETS			$4,064,884
OTHER ASSETS			
Cash surrender value of life insurance		$ 67,430	
Receivable for capital stock subscribed for by officers and employee		47,975	
Miscellaneous receivables, deposits, etc.		24,204	139,609
FIXED ASSETS—at cost, less allowances for depreciation and amortization			
Land		$ 21,091	
Furniture and fixtures, etc.	$1,566,017		
Leasehold improvements	1,160,797		
	$2,726,814		
Less allowances for depreciation and amortization	1,087,563	1,639,251	1,660,342
PATENTS AND TRADE-MARKS			1
DEFERRED CHARGES			
Prepaid insurance		$ 63,715	
Taxes		33,570	
Other		19,360	116,645
			$5,981,481

STORES, INC., AND SUBSIDIARIES, JUNE 30, 1950

LIABILITIES, CAPITAL STOCK, AND SURPLUS

CURRENT LIABILITIES			
Notes payable—portion due within one year			$ 100,399
Accounts payable:			
Trade accounts		$ 606,507	
Salaries, wages, and commissions		131,545	
Pay roll taxes and taxes withheld from employees		74,575	812,627
Accrued:			
Taxes (other than taxes on income)		$ 116,821	
Rent and interest		59,474	176,295
Federal and state taxes on income—estimated			170,421
TOTAL CURRENT LIABILITIES			$1,259,742
LONG-TERM DEBT			
Notes payable:			
To insurance company—Note A	$ 997,348		
Less portion classified as current	399	$ 996,949	
To bank:			
Payable in semiannual installments of $50,000 each	$ 250,000		
Less portion classified as current	100,000	150,000	1,146,949
CAPITAL STOCK AND SURPLUS			
Capital stock (without par value):			
Authorized 150,000 shares			
Stated capital:			
Outstanding 139,000	$1,698,050		
Subscribed 2,525	47,975	$1,746,025	
Surplus—Note A:			
Capital surplus	$ 256,647		
Earned surplus	1,572,118	1,828,765	3,574,790
			$5,981,481

See notes to financial statements.

CONSOLIDATED PROFIT and LOSS STATEMENT

GRAY DRUG STORES, INC., AND SUBSIDIARIES
Year ended June 30, 1950

Net sales		$15,283,817
Cost of goods sold		9,687,397
		$ 5,596,420
Selling, general, and administrative expenses		5,190,000
		$ 406,420
Other income:		
Gain on disposal of fixed assets	$ 37,386	
Revenue from telephone, etc.	22,140	
Miscellaneous	17,592	77,118
		$ 483,538
Interest expense		46,543
PROFIT BEFORE FEDERAL TAXES ON INCOME		$ 436,995
Federal taxes on income—estimated		155,000
NET PROFIT		$ 281,995

See notes to financial statements.

CONSOLIDATED STATEMENT OF SURPLUS

GRAY DRUG STORES, INC., AND SUBSIDIARIES
Year ended June 30, 1950

CAPITAL SURPLUS		
Balance at July 1, 1949, and June 30, 1950—no change during the year		$ 256,647
EARNED SURPLUS		
Balance at July 1, 1949		$1,401,293
Net profit for the year		281,995
		$1,683,288
Cash dividends declared:		
$.20 a share paid Oct. 3, 1949	$ 27,770	
$.20 a share paid Jan. 3, 1950	27,800	
$.20 a share paid Apr. 3, 1950	27,800	
$.20 a share paid July 3, 1950—Note B	27,800	111,170
BALANCE AT JUNE 30, 1950		$1,572,118

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

GRAY DRUG STORES, INC., AND SUBSIDIARIES

Year ended June 30, 1950

NOTE A

This note matures in semiannual installments of $50,000 each beginning either May 1, 1953, or the May 1st or November 1st next succeeding the payment in full of the note payable to bank (unpaid balance of $250,000 at June 30, 1950). In addition, the Company is required to make additional payments in each year to the extent of 20% of the excess of consolidated net profit for the preceding year over $280,000 (under such requirement the amount of $399 is payable on November 1, 1950) however, such additional payment in one year shall not exceed $100,000. The loan agreement includes, among other things, certain requirements relative to maintenance of net current assets, and certain restrictions as to the payment of dividends. Under the foregoing provisions, the amount of consolidated earned surplus not available for dividends at June 30, 1950, was $1,336,135.

NOTE B

On June 30, 1950, the Company deposited funds with the dividend disbursing agent for payment of the dividend payable July 3, 1950.

NOTE C

Allowances for depreciation and amortization aggregated $283,008 for the year.

GRAY DRUG STORES, INC.

OPERATING SEVENTY SEVEN STORES
IN THE FOLLOWING CITIES:

OHIO

Akron
Alliance
Bedford
Barberton
Bexley
Canton
Cleveland
Cleveland Heights
Columbus
East Cleveland
Fremont
Garfield Heights
Lakewood
Mansfield
Massillon
Painesville
Rocky River
Sandusky
South Euclid
Steubenville
University Heights
Warren
Wooster
Youngstown

PENNSYLVANIA

Bradford
Erie
Indiana
Kittanning
Punxsutawney

NEW YORK

Corning
Cortland
Elmira
Ithaca
Oneida